ment to the complaint and affirmatively alleging that any such implied obligation was void, contrary to public policy, invalid and unenforceable (R. 22).

On the case as finally presented for decision the courts below had before them (1) the issue of the scope, and infringement by types 2, 3 and 4 trays, upon the claims in suit of patent No. 1,893,535 and of reissue patent No. 18,819 and (2) the issue of the construction of the agreement of April 1, 1936 and specifically the construction of paragraph "Eleventh" (b) thereof coupled with Judge Campbell's decision in the prior Abraham & Straus case with respect to the existence and breach of the asserted implied obligations.

The first issue—whether types 2, 3 and 4 were embraced by the claims of the asserted patents—was decided against the petitioner by concurrent findings and holdings of both of the courts below (R. 294-295, 296-298, 303; 334-337) and is not involved in the petition pending before this Court in this case.

The second issue, involving as it did, whether or not there was any implied obligation, was decided by both courts below in this fashion:

1. Both courts held the implied obligations to have existed (R. 304 and 337-339).

2. Both courts agreed in their holdings that paragraph "Eleventh" (b) of the agreement and Judge Compbell's decision of March 8, 1940 which limited claims within the purview of "Eleventh" (b) (R. 283, 294, 336-337) were, in effect, express limitations on the implied obligations. Said the District Court (R. 283-284):

> "If Judge Campbell's decision freed any of the devices then being made by defendant from the dominance of the plaintiffs' patents, defendant could stop paying royalties thereon. After that decision defendant could

have made the Crosley [1] device, with Crosley's consent, of course. The purpose of Clause XI (b) was to put the defendant on the same footing as any other manufacturer of ice trays, in so far as a court's decision might *limit* or hold invalid any claim of a patent covered by the license agreement."

The Court of Appeals put its holding in this fashion (p. 340):

"Paragraph Eleventh (b) of the license shows that the parties contemplated that their construction of the patent claims might be narrowed [2] by court decision and that, if they were so narrowed, devices which the defendant had made and on which it had paid running royalties could thereafter be manufactured and sold royalty-free. The trays of type 2 and 3 were in this category. The continued manufacture, use and sale of them without payment of running royalties was, therefore, permissible in accordance with the express provisions of the license and no obligation to the contrary can be implied.

* * * * *

"Assuming, arguendo, that there was an implied covenant not to compete with the licensed trays except to meet outside competition this manufacture and sale of the type 4 tray was not a breach of it provided the parties had agreed that the defendant might make and sell that tray royalty free. The exercise of good faith in exploiting the licensed patents did not require the defendant to refrain from doing whatever the plaintiffs had expressly agreed that it might do. No obligation not to manufacture and sell whatever kind of trays the license gave the defendant the right so to manufacture and sell can be implied and of course there can be no breach of a non-existent obligation."

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[1] This was the ice tray involved in Judge Campbell's decision in the Abraham & Straus case.

[2] The Court of Appeals had previously found, as had also the District Court, that Judge Campbell's decision in the Abraham & Straus case had narrowed the claims (R. 275, 336-337).

And even Judge Frank of the Court of Appeals, who purportedly dissented, agreed in principle with the foregoing holdings (R. 341-342):

> "Clause 11 of the agreement, coupled with the decision of Judge Campbell in the *Abraham & Straus* case, put defendant in the position it would have occupied if the agreement had provided that types 2 and 3 were not within the patent claims and that defendant could continue, free of royalties, to make and sell them. It was as if originally the parties had expressly agreed that, although defendant was required to exploit the patent, it was not required to discontinue making and selling types 2 and 3, despite the fact that they competed in part with the patented device."

3. The District Court held that the making and selling of types 2 and 3 which defendant had been making prior to the decision of March 8, 1940 by Judge Campbell in the Abraham & Straus case was not a breach of the implied obligations after said decision because of the express provision of "Eleventh" (b) (R. 283) and dismissed the complaint as to these types 2 and 3. However, although finding that type 4 was the mechanical equivalent of types 2 and 3 (R. 297, 302), the District Court, on a theory of "commercial" equivalency to a type 7 (R. 303) which had been put out with royalties paid thereon, concluded that the manufacture and sale of type 4 (since it began to be made after the Abraham & Straus decision and in substitution for type 7) was a breach of the implied obligations (R. 304). The majority of the Court of Appeals took into consideration *all* of the findings of the District Court and held that the latter conclusion was wrong, saying (R. 340-341):

> "Although the type 4 tray was correctly found to be a modification of the type 7 tray, it was in fact also no more than a modification of the type 2 and type 3 trays. The court found that 'Type 4 embodies the moveable transverse sections of types 2 and 3 and the two-part structure of the longitudinal member of the grid of type 3. In structure and mode of operation to

effect the release of ice blocks from the grid it is quite similar to types 2 and 3'.[1] The similarity in operation just mentioned is so close that it is identical. The only mechanical difference is that already mentioned which is the attachment of the lever of type 4 to the grid near one end instead of nearer the center as in the 2 and 3 types. Mechanically the three types, 2, 3 and 4 are equivalent.

"There was no covenant, express or implied, limiting the number of types 2 and 3 trays which the defendant could manufacture and sell after the *Abraham & Straus* decision. As type 4 was *mechanically, structurally, and commercially the equivalent of types 2 and 3* the manufacture and sale of it was included in the permission to manufacture and sell such trays without limitation.

"It should be noticed that the defendant is not charged with having failed to manufacture and sell any trays under the license after the *Abraham & Straus* decision. The record shows that it did continue to sell type 7 trays and sold 1,440,000 on which it paid royalties between April 1, 1940 and December 1, 1942.[2] The second cause of action was therefore not proved and the judgment thereon must be reversed."

As mentioned above, Judge Frank agreed with the majority, as did the District Judge, as to the interpretation of the agreement in suit and particularly paragraph "Eleventh" (b). The extent of the application of that interpretation is the only real point of difference between the majority and Judge Frank. All the judges below agreed that "Eleventh" (b) coupled with the decision in the Abraham & Straus case did in fact limit the asserted implied obligation to the extent that the manufacture and sale of types 2 and 3 were not a breach of any obligation express or implied in the agreement in suit.

The foregoing issues outlined above were not only presented by the pleadings but were expressly argued to the

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[1] Finding 34 (R. 302). See also Finding 13 (R. 297).

[2] Finding 36 (R. 302).

courts below; that is to say, plaintiffs themselves fashioned the issue which has been decided against them. Mr. Davis, who is of counsel on the petition presented here, conceded and posed the issue on the trial in the District Court as follows:

1. Respondent could have, after the Abraham & Straus decision, made and sold the Crosley device (involved in that prior suit) without protest from plaintiffs,

> "* * * because Paragraph Eleventh in the agreement expressly provided that" (R. 138).

2. "I agree with you that this decision [the Abraham & Straus decision] and the rights arising under the contract, paragraph eleventh, are the nub of the thing—" (R. 138).

3. "I say that paragraph [Eleventh (b)] is in the contract and it is binding on the parties. If this device that they are now making lies within the things excluded from the payment of royalty by that specific paragraph eleventh, then they don't have to pay royalty in spite of this obligation [to exploit and to refrain from making a commercial equivalent], because I agree with you, to that extent the obligation was defined" (R. 140-141).

4. "I think if you hold that Judge Campbell in his construction of the patent excludes these devices of the defendant, that they are freed from royalty. I just don't think he did. That is where we differ factually" (R. 142).

5. "I say quite frankly to you * * * Paragraph Eleventh, so far as it operates or whenever it operates, *limits this general obligation* [good faith, to exploit, etc.] that *is implicit in the transaction.*

"The Court: Because this is an agreement made by the parties themselves to govern their relationship.

"Mr. Davis: Defining that obligation. So I said to you this morning and it results in the same conclusion we came to this afternoon, that if Judge Campbell's interpretation of the patent excludes these de-

vices, then Paragraph Eleventh by contract voids the necessity of paying royalties. We all agree on that" (R. 142-143).

6. "It is an obligation of good faith, and if the licensee violates that obligation then the remedy is not to say that the devices that he makes are inside the patent or any artificiality like that, but the remedy is a suit for damages for neglecting the obligation, the measure of the damages is the royalty rate, and so the courts just jump to the conclusion that he is obliged to pay as though the things were within the patent. Now that is the general obligation. But I say again, so there won't be any misunderstanding, that in *this contract Paragraph Eleventh is an expressed limitation of that obligation*" (R. 143).

Against the foregoing recital of background of the case and the issues raised and decided by the courts below, the artificiality of the asserted questions here sought to be raised for review (Pet. 8) and, in fact, of the entire petition, is almost too apparent for extended argument.

Summary of Argument

I. None of the three questions asserted to be involved (Pet. 8) has any real basis in any issue decided adversely to petitioners.

II. No major change in the patent law nor any matter of importance to the administration of the patent law is involved.

III. The petition is in fact baldly misleading in several respects.

Argument

I

a. The first question stated to be involved states the rule of the asserted implied obligation on an exclusive licensee and asks if such rule is "waived because the

agreement makes the scope of the royalty obligation co-extensive with the scope of the licensed patents." The decisions below will be searched in vain for any holding or even discussion one way or another that the agreement involved makes the "scope of the royalty obligation co-extensive with the scope of the licensed patents." The statement of the case made above shows such an issue was, and is, entirely immaterial to any ground or basis of the decisions of the Circuit Court of Appeals. Further, the petitioners themselves put the issue, in effect, to the courts below thus: Paragraph "Eleventh" (b) is a limitation on the implied obligation if the prior Abraham & Straus decision narrowed the scope of the claims; and, if the devices respondent is now making are excluded by virtue of said paragraph and decision, respondent is free of all liability. Where petitioners actually took issue in the courts below was on the proposition that the Abraham & Straus decision did not limit or narrow the claims. On this proposition both courts below (including the dissenting judge), found against the petitioners, the divergence being only the extent of the application of the unanimous interpretation of the agreement coupled with the prior decision.

Whether the "scope of the royalty obligation" is or is not "co-extensive with the scope of the licensed patents" is an entirely immaterial and abstract proposition to any issue decided adversely to petitioners in the courts below.

b. The second question (Pet. 8) can be said to have some relation to the issues of the case, but this question is cast in an artificial and misleading form in an attempt, it is supposed, to give the allegedly "basic" issue more importance than it deserves. Neither of the courts below held that the "rule" was (or was not) "waived by a provision in the license agreement that a judicial construction of any licensed patent shall govern as between the

parties as to the scope of the patent construed and the royalty obligation thereunder." No such issue in this form was presented by petitioners or respondent to either court under their pleadings or by their counsels' arguments, and neither court below decided any such issue. In fact, the District Court expressly (R. 283-284) and the Court of Appeals by clear implication (R. 340) placed their respective interpretations of "Eleventh" (b) and the Abraham & Straus decision squarely within the rule's exception—the meeting of outside competition without liability.

> "The purpose of Clause XI (b) was to put the defendant on the same footing as any other manufacturer of ice trays, in so far as a court's decision might limit or hold invalid any claim of a patent covered by the license agreement" (District Judge Leibell, R. 283-284).

> "The continued manufacture, use and sale of them without payment of running royalties was, therefore, permissible in accordance with the express provisions of the license and no obligation to the contrary can be implied" (Circuit Judges Chase and A. N. Hand, R. 340).

> "Clause 11 * * *, coupled with the decision of Judge Campbell * * *, put defendant in the position it would have occupied if the agreement had provided that types 2 and 3 were not within the patent claims and that defendant could continue, free of royalties, to make and sell them. It was as if originally the parties had expressly agreed that, although defendant was required to exploit the patent, it was not required to discontinue making and selling types 2 and 3, despite the fact that they competed in part with the patented device" (Judge Frank, R. 341-342).

Any decision which so limited the claims to exclude respondent's devices would free other (and unlicensed) manufacturers to make devices identical to, and in competition with, respondent's without the necessity of paying royalties or other tribute. The existence of potential outside competition because of a limitation placed on broad claims of a licensed patent is well within the conceded exception of freeing respondent of liability and this was embodied in Paragraph "Eleventh" (b) of the agreement in suit.

Petitioners in their petition and brief now attempt to divorce the "implied obligation" of good faith, etc., from the express terms of the agreement. They now argue that once one becomes an exclusive licensee he should pay one way or another on anything he makes or sells without reference to the provision of the instrument creating the license, except (in their view) to actual and proven pressure of outside competition. Analogy is made to a trust relationship. However, this Court is entirely familiar with the fact that express provisions of a trust instrument will often prevent the imposition on the trustee of obligations implied in law in the absence of express clauses. For example, a trustee can only invest with impunity in "legal" investments, but where he is expressly empowered to invest in "non-legal" securities, he may do so without liability. So also a trustee may be exempted expressly from liability for ordinary negligence in investing trust funds, being, however, liable in the absence of such express exemption.

The asserted implied obligations cannot therefore be considered in the abstract and apart from the provisions of the agreement in suit. Petitioners recognized in the courts below that these implied obligations were part and parcel of the agreement and should be considered—as both courts did—subject, and in relation, to the express provisions of that contract.

The second question, like the first, does not, therefore, raise any question which was in reality presented and involved in the courts below.

c. The third question about repugnancy to the *Mercoid* case was definitely placed outside the decision of the Circuit Court of Appeals where it said (R. 339):

> "Although the defendant has argued with much force that public policy no longer permits an exclusive licensee to be so restricted in action a majority of the court does not believe decision on that point is necessary on this appeal."

The court then went on to assume an implied covenant not to compete (R. 340) but held that by virtue of "Eleventh" (b) and the decision narrowing the claims, the parties had expressly agreed that respondent was free of liability.

II

From all that has been set forth above, it is clear that there was no major change in the patent law or matter of importance to its administration involved in the decisions below (cf. Pet. 8). The case is simply one of a construction of a contract between two parties involving a particularly limited situation. The construction adopted by the courts below and the extent of the application of that construction by the Court of Appeals in no way conflicts with any general rule of law but is in conformity with the general rule that where the express provisions of a contract conflict with what otherwise would be implied, the former controls.

A decision on the demonstrated abstractness and unreality of petitioners' propositions and questions would serve no useful purpose as a guide for future litigation or conduct of parties.

III

To illustrate the length which petitioners' counsel have gone in unfair innuendoes and misleading statements concerning this case in an attempt to persuade this Court to grant their petition, the following (in addition to what has been stated above) is an excellent example.

The petition states (Pet. 4):

> "The Court of Appeals *by a divided court* on August 26, 1944 affirmed the findings of the district court with respect to type 2 and 3 and reversed with respect to type 4 tray, thus denying petitioner all relief."

Among the reasons stated for allowing the writ, is this one (Pet. 9):

> "5. The case was decided by a divided court and with respect to the question on which the writ is sought the dissenting opinion is in agreement with that of the district judge."

In their argument in support of the petition it is asserted (Pet. 18):

> "But to imply a freedom to make and sell from the fact that the product is free of the express royalty obligation is to abrogate the implied covenant to exploit. For it is not until it is made to appear that under the agreement the products sold by the exclusive licensee are royalty free that there is any need to invoke the covenant. It is because they are royalty free that the law imposes the implied obligation of good faith. To make the very fact which gives rise to the covenant the basis for denying it, is to abrogate the rule itself."

This argument is followed by a partial quotation from Judge Frank's opinion purportedly in support of the argument.

The thread of thought which petitioners seek to weave into this Court's mind is that there was some real divergence in interpretation of paragraph "Eleventh" (b) coupled with the prior decision between the majority of the Circuit Court on the one hand and Judge Frank and the District Judge on the other hand. Such is not the case. All the judges in both courts below were one in their opinion that

1. There were implied obligations originally.

2. Paragraph "Eleventh" (b) coupled with a decision narrowing claims was a limitation on the implied obligations.

3. That respondent was free to make and sell types 2 and 3 without liability to petitioners by virtue of "Eleventh" (b) coupled with the Abraham & Straus decision.

The division was on a very narrow ground and that was the extent of the application of "Eleventh" (b) to a particular fact situation, *i. e.*, to the manufacture and sale of the type 4 tray which was, in fact, the mechanical equivalent of both types 2 and 3 established by all the Judges in both District and Circuit courts as excluded from royalty.

There was thus no division in principle or inherent interpretation of the agreement.

For the petitioners to say, in reason 5, that "*with respect to the question* on which the writ is sought the dissenting opinion is in agreement with that of the district judge" is absolutely untrue, since, under their question (for example, questions 1 and 2) and their whole petition and brief, they seek a review of the holdings below as to types 2 and 3 as well as type 4. It is true that Judge Frank and the District Judge were in agreement that the sale of types 2 and 3 did not breach the

implied obligation, but that type 4 (erroneously in respondent's view) did. However, the petitioners also seek to overthrow the views of both Judge Frank and the District Judge[1] while attempting to rely, for example, on a partial quotation from Judge Frank's opinion. Reason No. 5 (Pet. 9), by its inherent fallacy, further exposes the entire artificiality of the questions and reasons advanced by this petition.

Conclusion

It is submitted that the petition is without sound basis, and should be denied.

Drury W. Cooper,
Counsel for Respondent.

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[1] Specification of Errors numbered 2 (Pet. 12) shows their intent clearly.